

ICPS newsletter

Forecasts less optimistic for Ukrainian economic growth

The updated consensus forecast for major macroeconomic indicators in Ukraine shows further declines in the estimates for GDP growth, which was reduced to 3.8% for 2003 compared to the 4.4% forecasted in October. In 2004, GDP growth is expected to reach 4.6%. Despite the quarterly reductions in GDP growth forecasts, experts left unaltered the trend for accelerated GDP growth for next year. In fact the following indicators were improved upon compared to the previous forecast: (1) export and import growth; (2) lowered inflation rate; (3) reduced commercial lending rates; and (4) average wage growth. However, the restraint evident in the experts' forecasts shows that they do not expect any active economic reforms

The Ministry of Economy and European Integration, with sponsorship from the Economic and Social Development Project (ESDP) of the United Nations Development Programme (UNDP), held its regular seminar on macroeconomic forecasting on 7 February 2003, involving representatives of leading Ukrainian organisations that produce forecasts for Ukraine's economic development. The purpose of this series of quarterly seminars is to forecast future changes and determine average values for the major indicators of Ukraine's economy. This time, the consensus forecast indicators were determined based on the forecasts submitted by the Ministry of Economy and European Integration, the Ministry of Finance, the National Bank of Ukraine, the Institute for Economic Forecasting of the National Academy of Sciences of Ukraine, the International Centre for Policy Studies (ICPS), the International Monetary Fund, the Institute for Economic Research and Policy Advice, the ING Barings Ukraine bank, the Dragon Capital investment company, and Alpha&Co.

Changes since the previous forecast

The following major changes took place since the previous quarterly forecast:

- experts forecasted that GDP growth will drop by 0.6 percentage points (p.p.) in 2003, to 3.8% as the consensus forecast;
- the inflation indicator (consumer price growth) fell by 2.1 p.p. and, according to the forecast, will amount to 4.2% during 2003;
- in the international sector, current accounts, export and import volumes, and proceeds from foreign direct investments are expected to grow (see Table). This will

positively affect the NBU's foreign currency reserves, which according to the forecasts will jump to 5,229 million US dollars in 2003;

- the high level of expected hard currency inflow pushed up forecasts for the UAH/USD exchange rate, which is expected to hit 5.49 UAH/USD by YE'03;
- the forecasted stability retained in the financial sector prompted a downward adjustment in the forecast average commercial lending rate by 1 p.p., to 18.5% for 2003.

2004 consensus forecast unveiled for the first time

The 2004 forecast is characterised by varying expert opinions, in view of the upcoming Presidential elections in Ukraine. Certain institutions forecast that a possible implications of the preparations for the elections can include tightened fiscal pressure and a resumed practice of mutual debt offsets.

According to the expert opinions, in 2004 the GDP growth will reach 4.6%, with average yearly prices picking up by 5.5%, the average commercial lending rate sliding to 16.4%, and the UAH/USD exchange rate anchoring at 5.66 UAH/USD by YE'04.

Assumptions made by seminar participants

Most experts, when predicting the further development of the Ukrainian economy, grounded their forecasts on the following assumptions.

Foreign trade:

- improved situation in foreign markets, galvanised demand for Ukrainian export products, and boosted economic growth in Ukraine's major trading partners;

ICPS news

OSI Network Working Group meets at ICPS

During 7–9 February 2003, ICPS hosted a meeting of representatives of the OSI think tank network working group. Directors of counterpart centres in Bulgaria, Estonia, Georgia, Moldova and Poland discussed with their colleagues from ICPS the network's institutionalisation, formulation of its statute, and an activity plan. A list of areas for future cooperation was drawn up, as well as a list of projects in which the network will be involved in the near future.

Seminars on managing change

In early February, ICPS invited Canadian expert Ms. Brenda Douglas-Prosen to conduct a series of seminars on managing change in Kyiv, Ivano-Frankivsk, and Lviv. The seminars were given for employees of government agencies, non-governmental organisations, and higher educational institutions.

Participants were given the opportunity to learn how to formulate their vision of necessary changes, support their implementation, and minimise resistance. Also, they discussed issues with regard to assessing how well change implementation has succeeded and how to make the change management process an inherent part of organisational development.

- Russia's trade policy softened towards Ukraine;

- diversification of Ukrainian goods markets.

Real sector:

- household income growth;
- gradual growth of investment volumes;
- smaller harvest in 2003.

Monetary policy:

- a moderate nominal depreciation policy of Ukrainian hryvnia with respect to the US dollar and euro, as well as an accumulation of foreign currency reserves;

- increased lending volumes, particularly the share of long-term lending, and reduced bank rates;
- a lax monetary policy, which will foster further remonetisation of the economy.

Fiscal policy:

- reduced arrears on VAT refunds;
- most analysts forecasted that tax rates will be reduced starting in 2004.

Threats to the forecast

- FATF decision to impose unprecedentedly harsh sanctions upon Ukraine, with widespread blocking of correspondent accounts;

- protectionism measures imposed against Ukrainian exports;
- worsened domestic political situation;
- no constructive amendments to the tax legislation;
- changes in the NBU policy;
- surging oil prices.

Divergence of experts' opinions

It was emphasised during the course of the seminar that the beginning of the year is the most uncertain period, as well as the most difficult one for forecasting the domestic situation. Thus, the main divergences of opinion among seminar

participants had to do with the impact of external factors, such as either tightened or cancelled FATF sanctions upon Ukraine, and implications of imminent war in Iraq. Moreover, the experts did not reach a consensus on the budget policy for 2004, the year of the presidential elections in Ukraine.■

The International Centre for Policy Studies has been producing quarterly forecasts for Ukraine's economic development since 1997. The forecast is posted at the ICPS web-site: <http://www.icps.kiev.ua>. For further information regarding ICPS forecasts, please contact Andrew Blinov at ablinov@icps.kiev.ua, tel.: (38-044) 236-1292.

Comparative table of macroeconomic forecasts for 2003–2004

Indicator	Average value		ICPS indicator		Indicator	Average value		ICPS indicator	
	2003	2004	2003	2004		2003	2004	2003	2004
Real sector	(mill UAH)				Public finances*	(mill UAH)			
Nominal GDP	234,945	259,109	226,800	246,900	Total revenues	65,568	69,306	65,150	69,100
Consumption	180,179	199,597	173,956	191,348	Total expenditures	67,063	69,916	66,000	72,900
private	132,372	153,382	131,090	146,165	Overall balance	-1,566	-759	-850	-3,800
public	47,594	46,385	42,865	45,183	Financing items	1,975	504	—	—
Investment	47,836	54,292	48,082	52,343	Privatisation	2,111	1,230	2,000	1,000
Gross accumulation					Domestic borrowing	-914	-1,020	—	—
of fixed capital	47,228	52,932	—	—	Foreign borrowing	737	-569	—	—
private	40,850	45,980	—	—	Public finances*	(% of GDP)			
public	5,993	6,515	—	—	Total revenues	27.9	27.0	28.7	28.0
Net exports of goods					Total expenditures	28.5	27.3	29.1	29.5
and non-agency services	6,036	4,948	5,443	3,703	Overall balance	-0.7	-0.3	-0.4	-1.5
Gross national savings	58,650	63,901	—	—	Financing items	0.8	0.2	—	—
Real sector	(index, year-over-year)				Privatisation	0.9	0.5	0.9	0.4
Real GDP	103.8	104.6	103.5	104.0	Domestic borrowing	-0.4	-0.4	—	—
Consumption	104.5	105.0	—	—	Foreign borrowing	0.3	-0.2	—	—
private	105.1	106.7	106.5	107.0	Money and credit	(mill UAH)			
public	103.0	101.4	101.2	101.8	Monetary base, year-end	37,459	45,229	39,500	50,860
Investments	105.5	105.4	—	—	Dec. to previous Dec., %	21.2	19.2	28.0	29.0
Inflation	(index)				Money supply (M3), year-end	80,787	100,591	83,500	110,220
GDP Deflator (average annual)	105.3	105.3	103.0	104.7	Dec. to previous Dec., %	26.0	22.7	30.0	32.0
CPI (average annual)	104.2	105.5	103.9	104.5	Average weighted interest rate				
Dec. to previous Dec.	106.2	105.4	106.0	103.1	on commercial bank hryvnia				
External Sector	(mill USD)				loans, %, average annual	18.5	16.4	18.0	19.0
Current account	2,069	1,554	2,310	1,950	NBU international reserves,				
Export volumes	23,435	24,480	24,040	25,600	mill. USD	5,299	5,809	5,560	6,440
Import volumes	22,467	23,812	23,050	24,940	Social indicators	(thousands of people)			
Revenues balance	-738	-792	-650	-720	Population	47,793	47,495	—	—
Official transfers (net)	1,835	1,697	2,000	2,000	% change over previous year	-0.8	-1.1	-0.6	-0.5
Capital account	-1,152	-914	-1,200	-1,100	Number of employees enrolled				
FDI	718	748	500	400	in all sectors of economic				
External Sector	(% of GDP)				activities, year-end	20,905	20,897	—	—
Current account	4.8	3.4	5.5	4.4	% change over previous year	0.7	-0.1	—	—
Export volumes	54.2	53.0	57.0	57.4	Number of registered				
Import volumes	51.9	51.5	54.7	56.0	unemployed, year-end	1,099	1,132	—	—
Revenue balance	-1.7	-1.7	-1.5	-1.6	registered unemployment,				
Official transfers (net)	4.3	3.7	4.7	4.5	year-end, %	3.9	4.3	4.0	5.0
Capital account	-2.7	-2.0	-2.8	-2.5	Average wage, UAH	444.4	489.4	435.0	500.0
FDI	1.6	1.6	1.2	0.9	Cash disposable incomes				
Exchange rate,	UAH/USD				of population, billions UAH	162.3	180.1	—	—
Average annual	5.41	5.55	5.38	5.54	Cash disposable incomes				
Year-end	5.49	5.66	5.45	5.61	of population, % change over				
					last year	14.8	10.7	9.5	10.0

* IMF methodology

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